By Dan McLean, Burlington Free Press

Vermont's dairy farmers have been losing money on milk all year.

The global recession put a dent in demand, creating a glut in supply. The oversupply pushed down milk prices and compelled dairy farmers to sell for a loss.

"Farmers are starving here. Let's put our differences aside and do something for the industry," said Jack Brigham, a St. Albans dairy farmer who sold 185 acres of his farm to make up for lost revenue.

Reform of the decades-old milk pricing system, which involves a complex array of federal market orders, won't come easily. But it's the system itself that Vermont's congressional delegation, agriculture leaders and many farmers say is the problem. The obstacles to reform are creating farmer unity and maintaining the inertia for reform -- even if prices begin to rebound.

The extent of the milk market's collapse in 2009 might have set the stage for reform because dairy farmers across the U.S. -- big and small -- all lost money. Historically, regional rivalries torpedoed attempts to modify the milk pricing system, which was created in the 1930s to ensure cities had adequate milk supplies.

"Regional differences make it especially difficult to enact such fundamental changes in dairy policy, but we have overcome great odds before," said Sen. Patrick Leahy, D-Vt.

Rep. Peter Welch, D-Vt., echoed that sentiment. "The obstacle to replacing the antiquated pricing system is regional division," he said.

Despite the challenges, talk of reform is under way. "There is more consensus in the industry than there ever has been," said Brigham, pointing to the shared financial pain dairy farmers felt this year.

He worries a recovery in milk prices, however, might dampen enthusiasm for major changes. "If the price of milk comes back, it goes away," Brigham said of reform. "Out of sight, out of mind."

This year Congress passed a measure sponsored by Sanders that funneled $350 million to dairy farmers through direct aid and price supports. But that's a short-term boost. "We need long-term solutions," Sanders said.

Welch says farmers must unite behind a plan.

"Farmer leadership is critical. As long as the farmers are divided it's not going to get through Congress," said Welch, who co-founded the Congressional Dairy Farmers Caucus to create a dialogue between dairy states.

"There is a lot of focus on supply management, I encourage them to keep going on that," he said.

In addition to looking at pricing system, increased attention has been paid to antitrust concerns by major players in the industry, such as Dallas-based Dean Foods Co., which dominates the market. Leahy and Sanders held a hearing in St. Albans highlighting the issue. The Department of Justice has agreed to hold regional workshops to gather information on antitrust concerns.

Dean Foods spokeswoman Marguerite Copel said the company doesn't have "a specific position" on supply management proposals.

Failing farms

Vermont's dairy farms are steadily disappearing.

In 1999, there were 1,782 dairy farms in the Green Mountain State. In December, that tally had fallen to 1,026, said Kelly Loftus, spokeswoman for the Vermont Agency on Agriculture. Each farm averages 139 cows, a fraction of the massive operations in the Southwest that have upward of 20,000 cows, Vermont Agriculture Secretary Roger Allbee said.

"The trend is clear: You will see the demise of small, family farms," Sanders said, warning of the dangers of a failed effort to reform the milk pricing system.

Dairy farmers were devastated by the rapid fall in prices this year. In July, for example, Vermont farmers were paid 40 percent less than the $1.79 a gallon paid in July 2008, according to government data. Prices have increased by some 27 cents a gallon since midsummer, but remain below the break-even mark.

The typical Vermont dairy farm lost $100,000 this year, said Bob Wellington, an economist for Agri-Mark Inc, which represents 1,200 dairy farms in New England and New York. Farmers continue to get hit by three-year cycle of booms and busts, he said. "We have to find a way to make some of these bad years stop happening."

The break-even point for most of the state's dairy farmers is about $18 a hundredweight, or $1.55 a gallon. For seven months of the year, a hundredweight, which is 11.6 gallons, sold for less than $13 -- and that includes all quality incentives, according to the government data.

"We need to find ways to end this vicious cycle," Leahy said.

The decline of farms affects more than just farmers in Vermont. The industry generates more than $2 billion a year through production, employment and related business transactions, Loftus said, adding that one cow translates into $14,000 of economic activity.

Managing supply

Developing some mechanism to prevent farmers from flooding the market with milk -- and driving down prices -- is gaining traction.

"You have got to control supply," to help prop up prices, said Brigham, who milked cows in Franklin County for 35 years. "But for it to work, everyone has got to do it. It's got to be mandatory. And I don't know how you make it mandatory unless you get the government involved."

Momentum might be building.

The Richmond-based Vermont Farm Bureau, which has more than 3,000 farm members in the state, reversed its opposition to supply management last month, said Jackie Folsom, the bureau's president. The organization is "flexible" on whether control would be mandatory or voluntary.

"We did not have consensus that it should be run by the federal government, but that is the only way it will work," she said, adding "there is a lot of chatter going on about what should happen and what would be best."

A meeting of American Farm Bureau will be held next month in Seattle. Supply management will be discussed, at the request of delegations from California, New York, Pennsylvania and Vermont, she said.

Some form of supply control is needed, Wellington said. If 2 percent to 3 percent too much milk is produced, prices drop 20 percent to 30 percent, he said. "Too often we look for the 'perfect plan.' And there is no perfect plan," he said.

Allbee, the state agriculture secretary, advocates a version of supply management plan with two tiers of pricing. If farmers produced above a limit, they would be paid less for it, he said, creating a financial disincentive to produce excess milk.

"Right now, we have a last-man-standing supply management system. We will end up with very few dairy producers in the country producing milk. It's the kind of policy which is not very good for the Northeast," Allbee said.

"I think some form of supply management is 'the idea,'" Allbee said.

Not so fast

"Anything that has to do with supply control ... all farmers don't appreciate that," Wellington said.

Onan Whitcomb, co-owner of the 300-cow North Williston Cattle Co. in Williston, thinks supply control is a "nice idea," but says "I just don't think it will happen.

"There are a lot of people talking about supply management, which is a quota. I just don't think that will go in Washington.

"It's really not the American way," he said. "The free market is not great now, but the way I look at it is with adversity, comes opportunity. Either you get gone, or you get better," Whitcomb said.

Whitcomb thinks a better plan would be to unite all U.S. dairy farmers into one dairy cooperative that could dictate milk prices to producers. "No one stopped Wal-Mart. No one stopped Dean Foods," he said. "Farmers have got to get big, just have one entity speak for all of them."

Allbee disagrees. "Those who say they just want the free market system to work don't understand we don't have a free market. We have a very complicated system," Allbee said. The milk pricing system is based on four different classes of milk with different minimum prices determined on where the milk is picked up.

Leahy said the strong inclination in Congress will be to consider dairy reforms during the next Farm Bill debate in 2011 and 2012. "But many of us hope the discussion can begin before then, sparing dairy farmers another round of the boom and bust price cycle," he said.

"Building support in other regions for such sweeping, long-term reforms is the key to success," Leahy said.

Wellington expects milk prices to increase to $18 a hundredweight by spring -- and could increase to $20 if demand continues to rise.

"When prices come back," Allbee said, "people lose their appetite to do any type of reform -- dairy farmers and Congress, too."

Wellington believes the industry will remain committed to reform.

"I think farmers are beginning to have long-term memories because they can't go through a 2009 again," he said.

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Additional Facts

How are milk prices set?

• The Federal Milk Marketing Order is designed to ensure dairy farmers are paid relatively uniform prices. The Federal Order program, in essence, establishes a minimum wage for dairy producers within a given geographic region -- although the level of that wage varies according to supply and demand.

• A Federal Milk Marketing Order is a regulation, issued by the U.S. Department of Agriculture, which requires the buyer of milk to perform pay dairy farmers a certain minimum price for their milk, depending on how that milk is used. Milk going into bottled form is valued at the highest level; milk used for soft goods such as ice cream and yogurt is assessed an intermediate value; and milk used for hard goods like cheese, butter and skim milk powder is valued at the lowest level.

• A Federal Order also requires payments to farmers within a particular area be pooled, so that even though one farmer's product may be bottled, and another's made into cheese, they each are paid the same uniform price, called the blend price.